



Town of Hingham

FY11 Economic Summit #2

Advisory Committee Perspectives

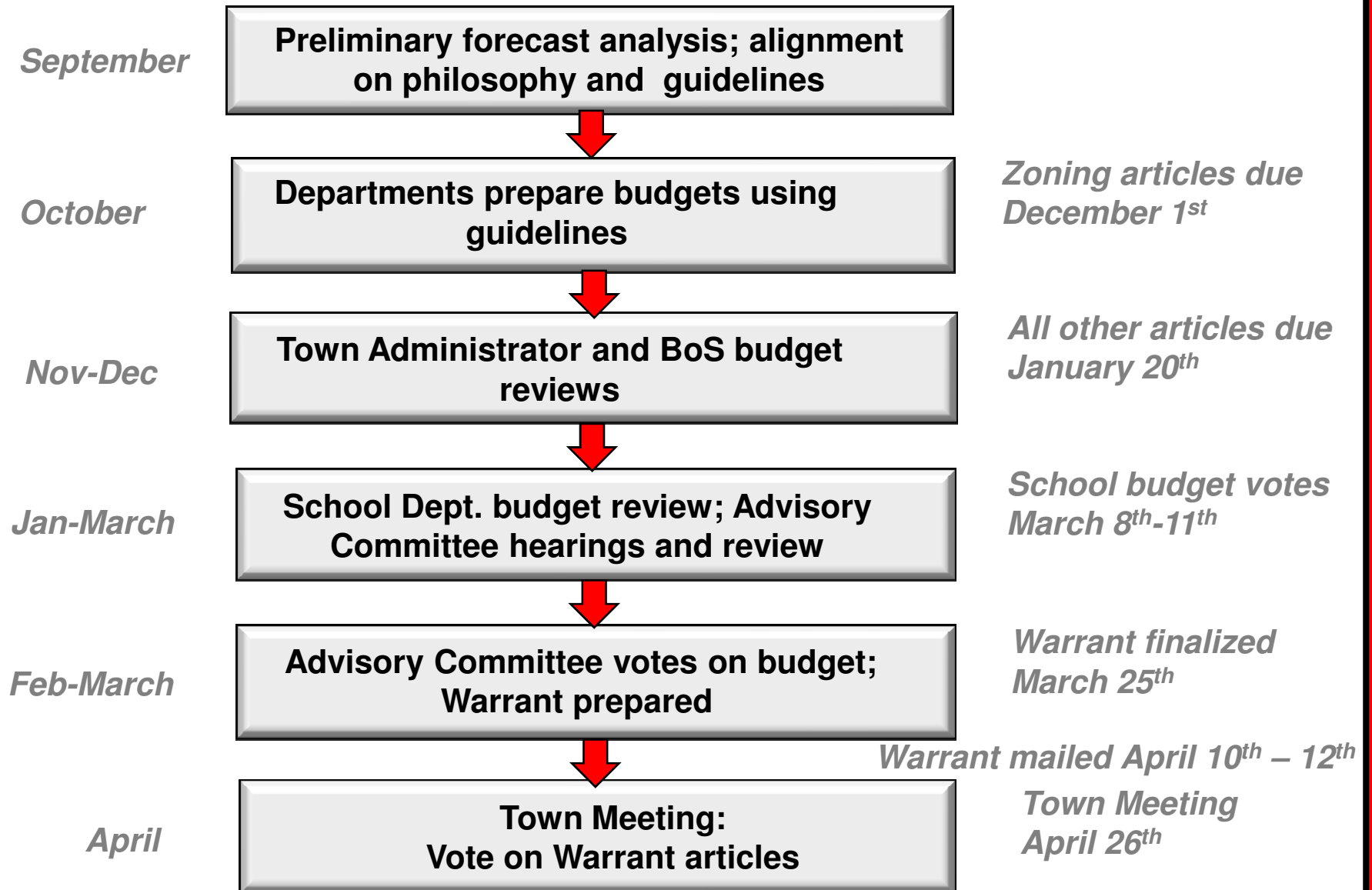
January 31, 2010



The Advisory Committee

- **Who: 15 Town residents**
 - » Appointed to 3-year terms by the Moderator
- **What: The Town's Finance Committee**
- **Why: Responsible for recommendations on all Town Meeting Warrant articles**
- **How: Weekly or more-frequent meetings January - April**
 - » Less frequent meetings May - December
 - » Liaison responsibility to other Town Departments and Committees

Town Budget and Warrant Process



Budget Goals for FY11



**To maintain the quality of Hingham's
institutions
balanced with
funding current obligations from recurring
revenues
and
restoring Reserve margins
at a reasonable cost to Hingham taxpayers**



Three Key Funding Obligations

- 1. Retirement health-insurance obligations to current and retired town employees (**OPEB**)**
- 2. **Capital spending** funded without drawing from Reserves (Fund Balance)**
- 3. Sufficient **Fund Balance** to manage unexpected events**

Three Key Funding Obligations – Original Projected Costs



1. OPEB	\$ 905,000
2. Capital Spending	\$2,000,000
3. Fund Balance	<u>\$ 500,000</u>
Total	<u>\$3,405,000</u>

Fully funding all Town obligations at FY10 levels—including these three—and taking projected FY11 revenues into account, the projected Budget Deficit is: **\$3,000,000**



1. Other Post-Employment Benefits (OPEB)

Current unfunded OPEB liability:

\$61,593,000 - >\$114,284,000

To limit our total liability to \$61.6M, we must:

- 1. Continue to pay as we go**
AND
- 2. Allocate at least \$905,000 per year for 30 years**

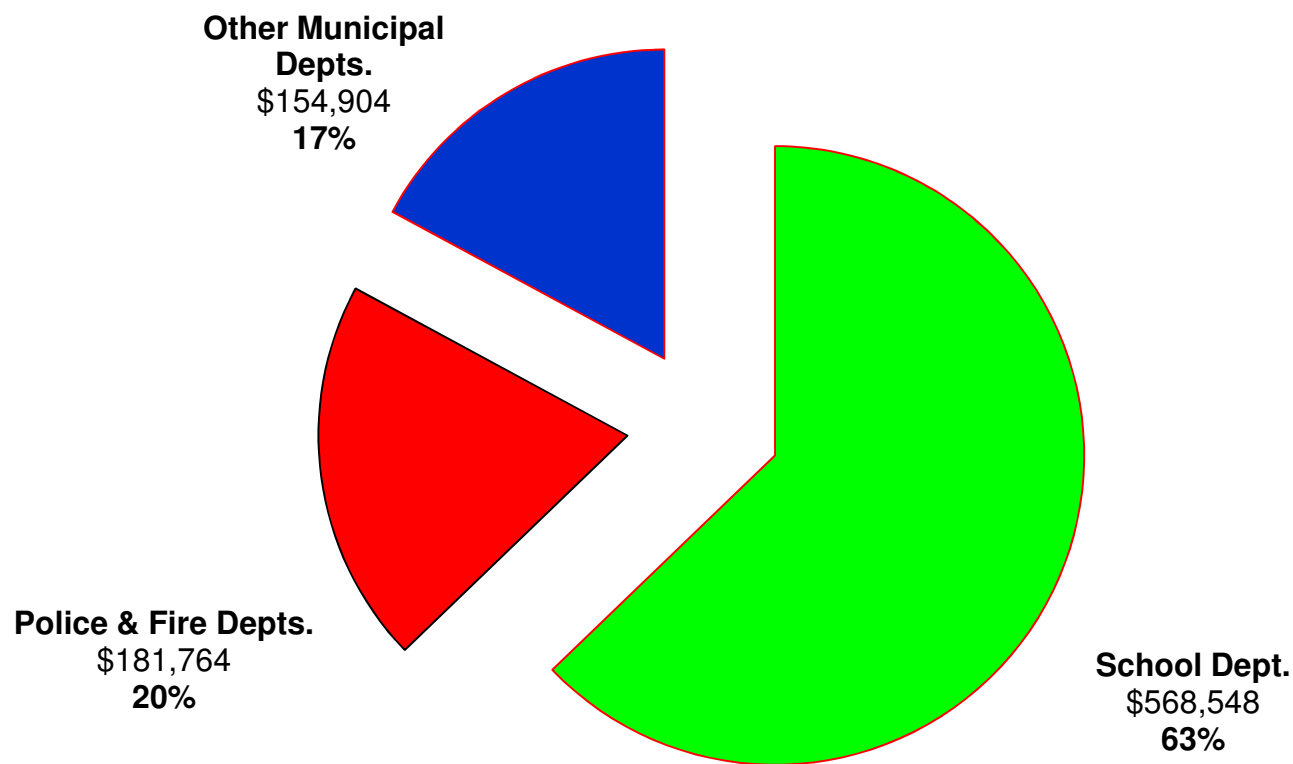
Consequences of failure to fully fund OPEB now:

- 1. Burden future Town budgets with an unfunded OPEB liability > \$114,284,000**
AND
- 2. Endanger continued health-benefit coverage for retirees**



1. Other Post-Employment Benefits (OPEB)

Breakout of FY11 OPEB allocation – \$905,216



Source: Buck Consultants June 30, 2009 Actuarial Valuation dtd October, 2009



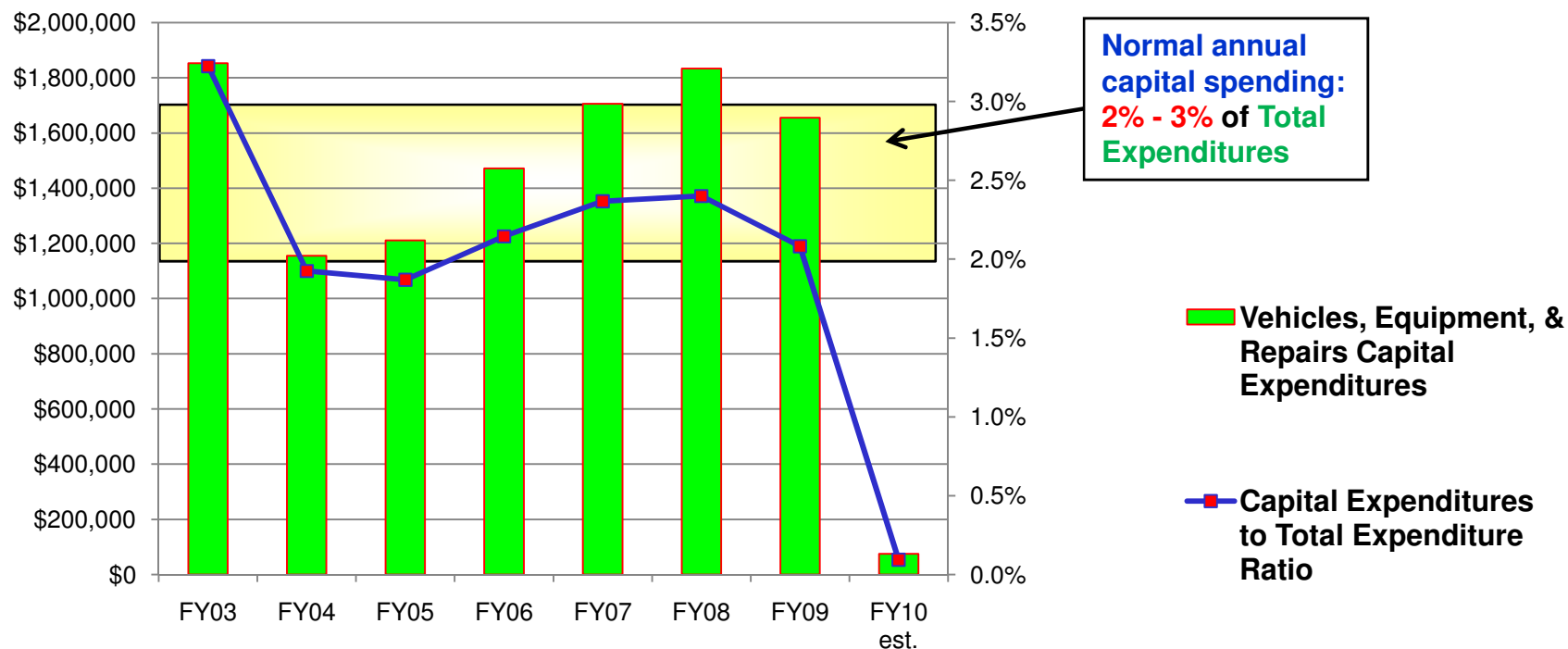
2. Capital – What is it and how do we pay for it?

“The physical infrastructure inherited from previous generations and intended to be passed on to future generations.”

- **Our buildings' construction and renovation**
 - **Funded by borrowing**
- **Our vehicles, equipment, and repairs**
 - **Funded without borrowing**



2. Capital Spending for Vehicles, Equipment, & Repairs*



* Funded without borrowing

Sources: FY03-FY09 Warrants, FY09 CAFR



3. Fund Balance Explained

What is it?

- **The Town's savings account**
 - **Currently @ \$7.1M – about one month's operating expenditure**

How much is enough?

- **Government Finance Officers' Association (GFOA) recommends one to two month's operating expenses**

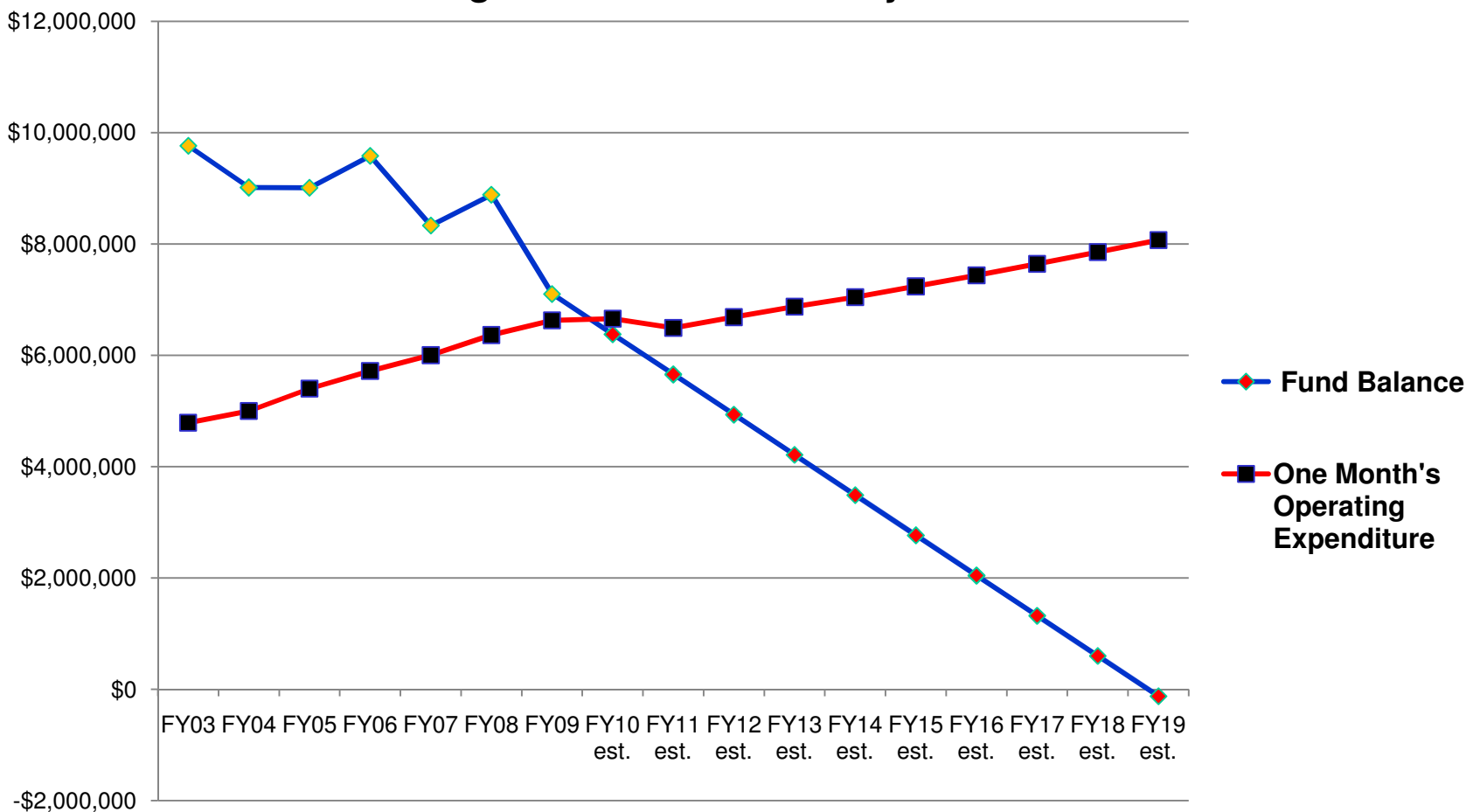
Where it is headed?



3. Fund Balance (Reserves)

FY03-FY09 **Actual**, FY10-FY19 **Extrapolated***

* If current average drawdown of \$723K/year continues

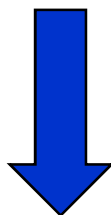


Sources: FY09 CAFR, January 2010 Five-Year Forecast



How Did We Get Here?

Rising **Costs***
and
Declining **Revenue**



- Payroll costs
- Health insurance premiums
- Bond debt payments

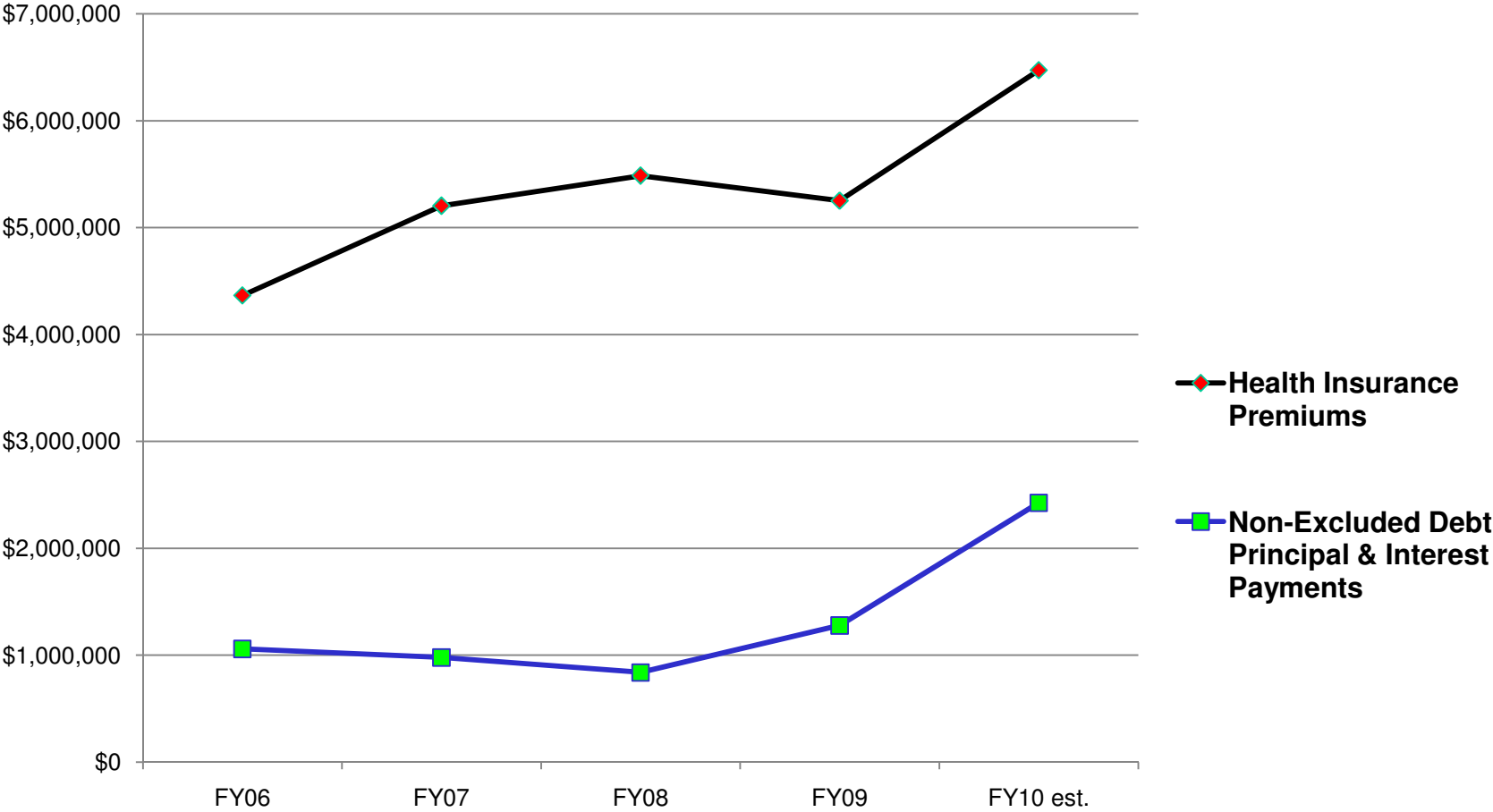
- Less Local Receipts
- Declining New Growth
- Reduced State Aid
- Lower Tax Levy growth

FY11 Projected Budget Deficit of **\$3,000,000**

*** In spite of budget cuts already made for FY10 to live within our means**



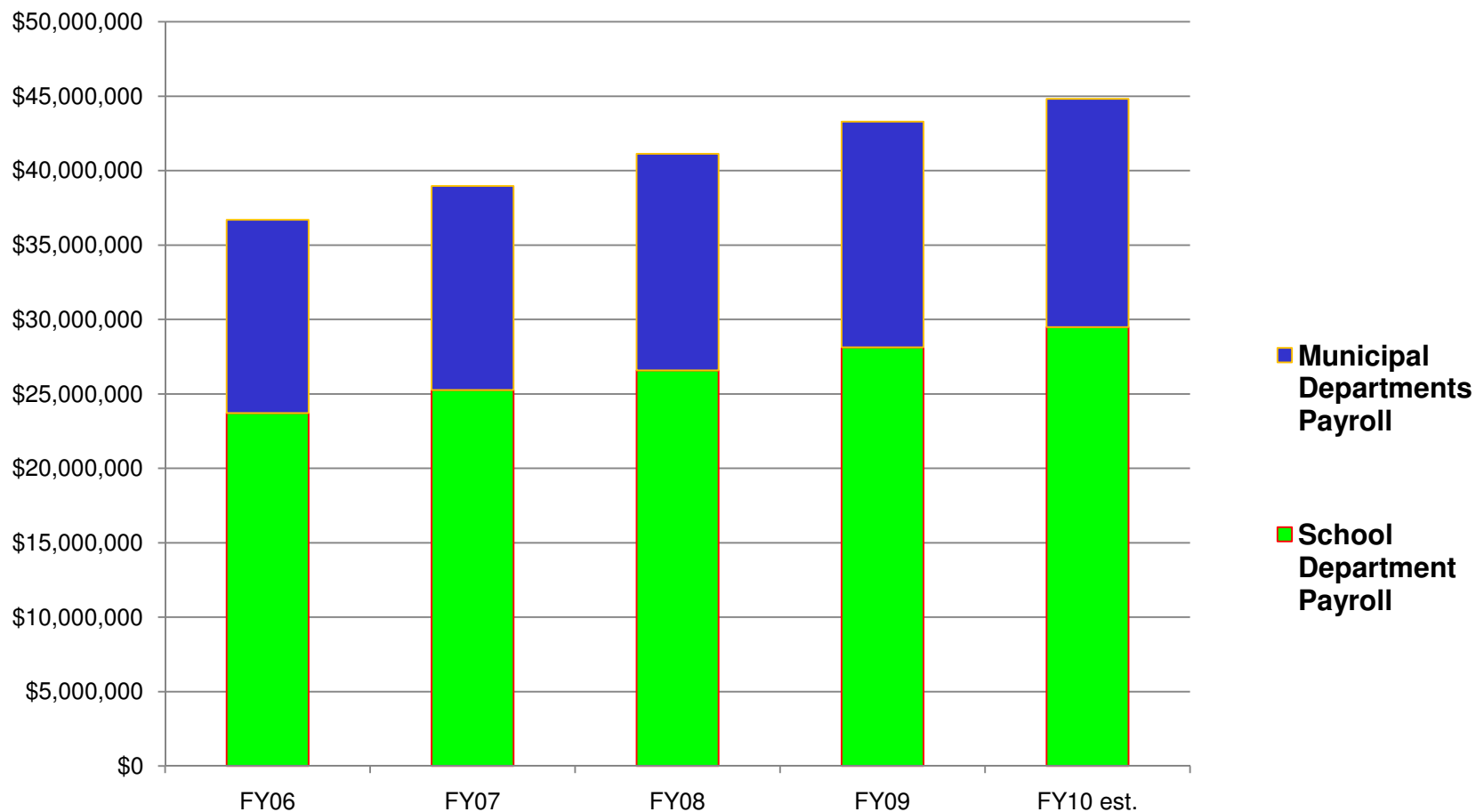
Rising Costs: Health Ins. & Debt Service – FY06-FY10



Sources: Town Meeting Warrants 2005-2009, Fifteen-Year Debt Schedule



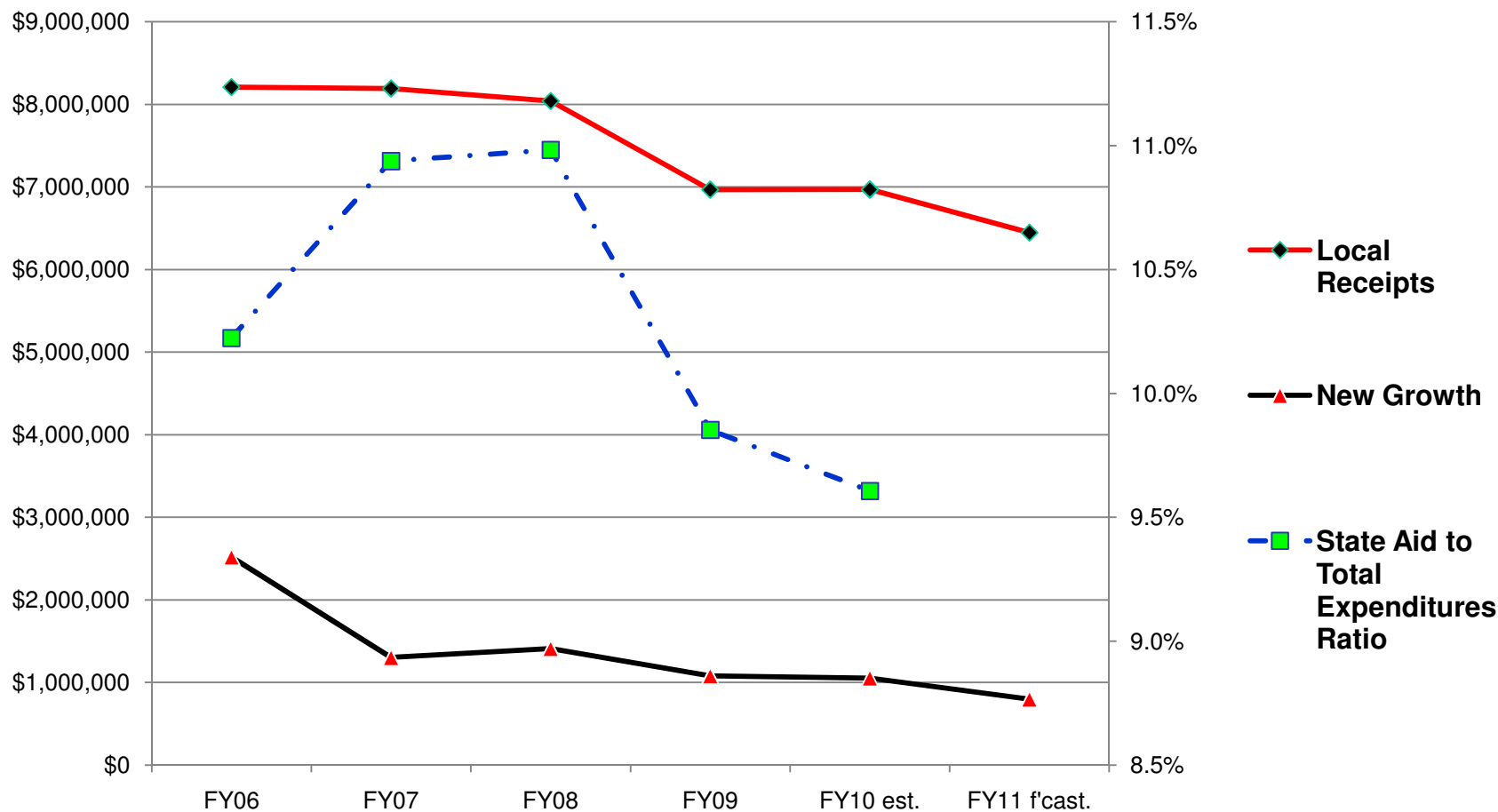
Rising Costs: Payroll – FY06-FY10



Sources: Town Meeting Warrants 2005-2009, Fifteen-Year Debt Schedule, FY11 Article 6 Operating Budget dtd 12/11/2009



Declining Revenues – FY06-FY11

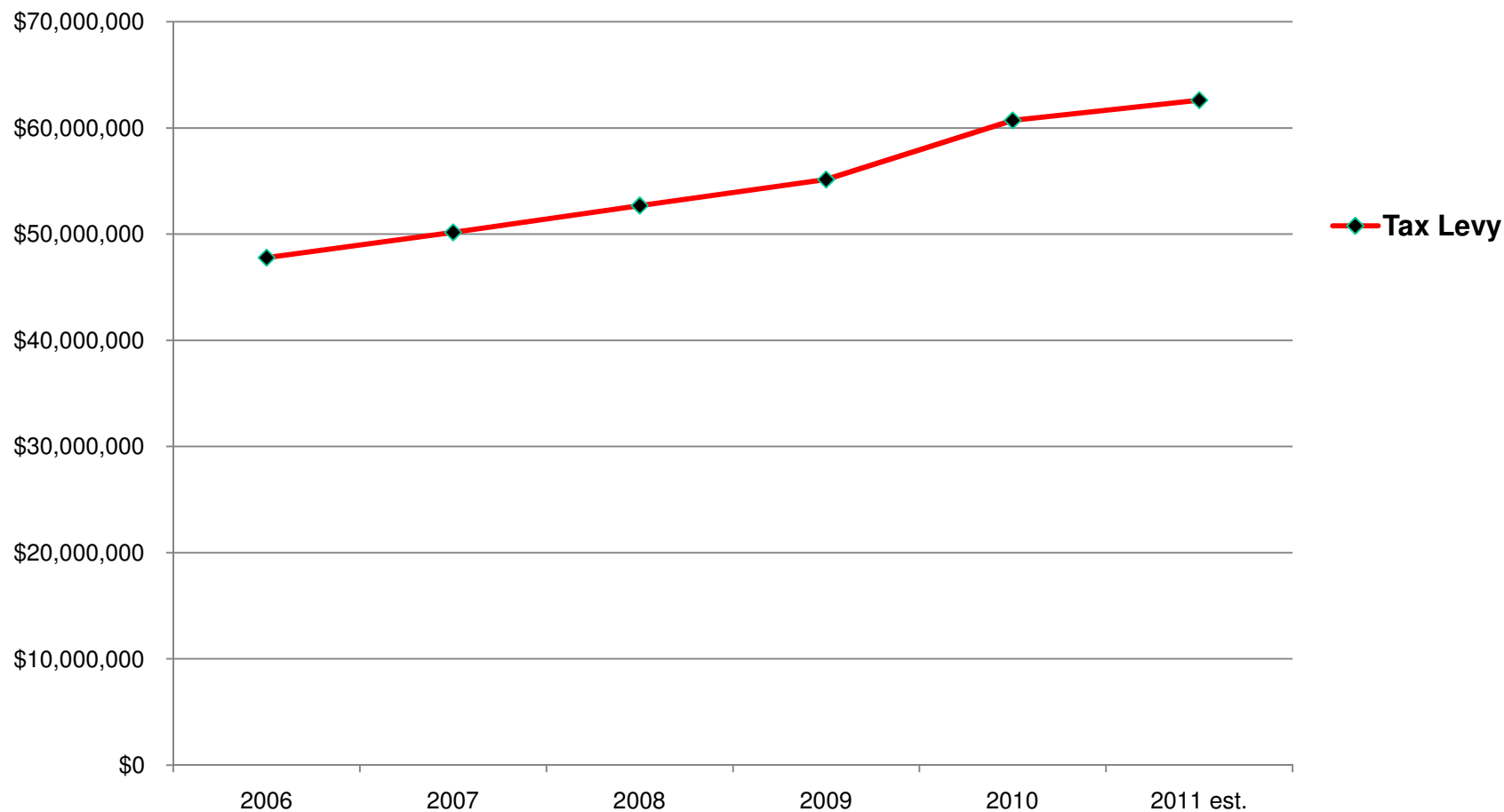


Sources: Ten-Year History of Local Receipts, State Aid (Cherry Sheet) Analysis, Five-Year Forecast, FY09 CAFR



Tax Levy – FY06-FY11

Tax Levy = Existing-property taxes escalated annually by Prop. 2 ½ **plus**
New Growth + **Excluded Debt Service** + **Overrides (if any)**

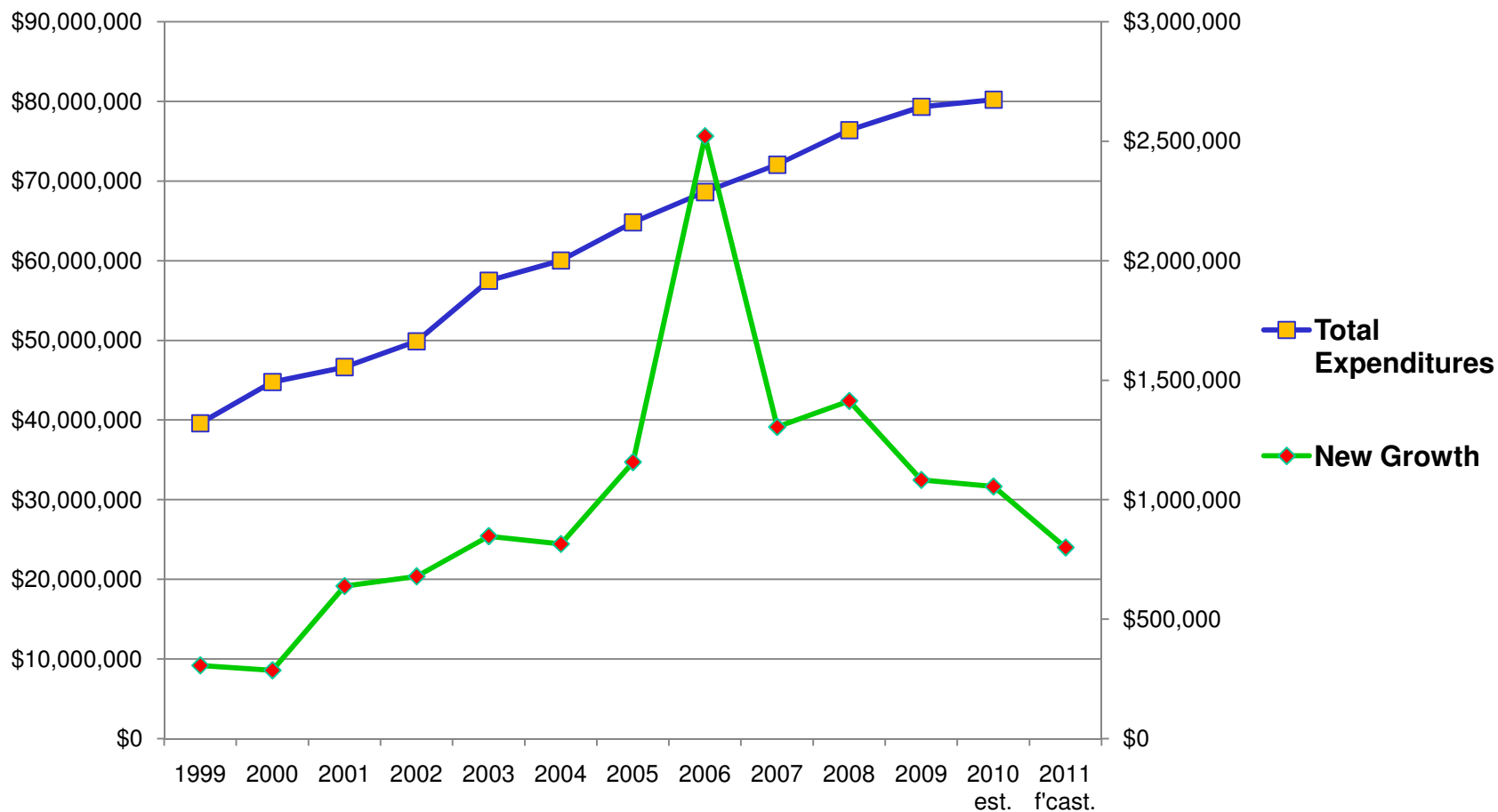


Source: Five-Year Forecasts



Expenditures vs. **New Growth*** Revenue

* **New Growth** = New property taxes from new construction



Sources: FY09 CAFR, Five-Year Forecasts 8/13/2007, 10/9/2008, 1/12/2010



Our Responsibility for FY11 and beyond

Balance



Responsible Cost Reductions*
with
Reasonable Revenue Increases
to fashion a sustainable solution

**with careful attention to the
service-reduction and financial impact on
Hingham's citizens**

*** In addition to cost reductions already made for FY10**



Original FY11 Cost Reductions

- **Projected FY11 Budget Deficit: \$3,000,000**
- **Fall 2009 Budget-Cut Guidance: ↓5.2%**
 - **Municipal @ \$21.1M* x 5.2% = \$1.1M**
 - **Schools @ \$36.5M* x 5.2% = \$1.9M**
 - TOTAL \$3.0M**

* Level-funded = same funding for FY11 as FY10



Additional Assumptions and Challenges

- **Budget forecast assumes 0% wage inflation**
- **Expected step increases**
 - **300 Municipal FTE's: \$123,000**
 - **500 School FTE's: \$600,000**
- **State aid cuts**
 - **Special Education: \$460,000**
 - **Quinn Bill: \$190,000**
- **Increasing school enrollments**
- **Declining public-safety force levels with increasing demands for service**
- **Increased health-benefits and debt-service payments**
- **Increased materials, fuel, and service-contract costs**



Potential FY11 Revenue Increases

Source	Potential Revenue
Local Meals/Room-Occupancy Tax	\$170,000*
Departmental Fee Increases	\$75,000
Tax Bill Demand Charges	\$35,000*
Transfer Station Fee	\$0 - \$1,200,000*
Operating Override	???*

*** Town Meeting approval of Warrant article required**



A Balanced Approach for Closing the Gap

- 1. Fully fund OPEB at \$905,000**
- 2. Modify other original funding targets**
 - Reduce Capital Spending
 - Reduce Fund Balance contribution
- 3. Recommend selected revenue increases**
- 4. Implement reasonable departmental budget cuts**
 - Cut Municipal budget
 - Cut School budget

Necessary total savings and new revenues: \$3,000,000
to arrive at a
projected budget deficit of \$ 0

Remaining Timeline



February

**Continuing Advisory Committee
Warrant article hearings/deliberations***

*Feb 4th - Joint
Meeting with BoS &
School Committee*

February

Capital Outlay Committee Recommendation

Mid-February

Feb-Mar

**Advisory Committee
budget-item votes***

*March 11th – Joint
Meeting with BoS &
School Committee*

March

**Advisory Committee finalizes Warrant
article Comments & Recommendations**

*March 25th – Warrant
finalized for printing*

Warrant mailed April 10th – 12th

April

Town Meeting vote on Warrant articles

*April 26th –Town
Meeting*

** Town Hall, Tuesdays, some Thursdays, 7:00 PM - for as long as it takes...*